

TIPPECANOE COUNTY TREASURER NEWSLETTER



TIPPECANOE COUNTY OFFICE OF THE TREASURER

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Future Local Government Property Tax Funding

The amount of property tax local governmental units receives each year changes by the six-year statewide non-farm income growth rate. If overall assessments change by a percentage higher than the six-year percentage, property tax should decrease.

Since this is a statewide average, it is a difficult number to project for the future. Everyone's hope is that we have seen the worst of the economic conditions and market values but no one really knows.

The 2011 levy will increase by 2.9% meaning the 2011 property tax rates are established to create a 2.9% property tax revenue increase. The state calculates the tax rate once the Auditor certifies the net assessment for taxes payable next year. Individual tax increases vary based on the assessment change from 2009 pay 2010 to 2010 pay 2011.

Let's take a stab at estimating where the levy may be in the coming years. One scenario is an optimistic view of where potential statewide income taxes will be and another a pessimistic view of the future economic future of the State of Indiana.

Actual Six Year Non-Farm Income Changes

| | |
|--------------------------------|-------|
| From 2003 to 2004 | 3.7% |
| From 2004 to 2005 | 3.1% |
| From 2005 to 2006 | 5.9% |
| From 2006 to 2007 | 3.2% |
| From 2007 to 2008 | 2.8% |
| From 2008 to 2009 | -1.6% |
| Six Year Average (2011 change) | 2.9% |

The concern beginning in 2014 is the high 5.9% number will go away. With the formula the General Assembly created to determine levies, a time delay occurs when either the economy is either good or bad. A delayed consequence to poor economic conditions will be felt during years when the economy may have recovered.

| <u>Optimistic Projection:</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|--------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| 6 years previous | 3.1% | 5.9% | 3.2% | 2.8% | -1.6% | 0.0% |
| 5 years previous | 5.9% | 3.2% | 2.8% | -1.6% | 0.0% | 1.0% |
| 4 years previous | 3.2% | 2.8% | -1.6% | 0.0% | 1.0% | 2.0% |
| 3 years previous | 2.8% | -1.6% | 0.0% | 1.0% | 2.0% | 3.0% |
| 2 years previous | -1.6% | 0.0% | 1.0% | 2.0% | 3.0% | 4.0% |
| Previous Year | 0.0% | 1.0% | 2.0% | 3.0% | 4.0% | 4.0% |
| 6 Year Average | 2.2% | 1.9% | 0.9% | 1.2% | 1.4% | 2.3% |

As you can see, even with an optimistic view of the economy, the funding for local government still will be difficult. With Health Insurance coverage for employees being double digit percentage increases each year, that increase alone will eat up potential increases in the levy. Now, the pessimistic view of the statewide economy:

| | | | | | | |
|--------------------------------|-------------|-------------|-------------|-------------|--------------|-------------|
| <i>Pessimistic Projection:</i> | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| 6 years previous | 3.1% | 5.9% | 3.2% | 2.8% | -1.6% | -1.6% |
| 5 years previous | 5.9% | 3.2% | 2.8% | -1.6% | -1.6% | 0.0% |
| 4 years previous | 3.2% | 2.8% | -1.6% | -1.6% | 0.0% | 0.0% |
| 3 years previous | 2.8% | -1.6% | -1.6% | 0.0% | 0.0% | 0.5% |
| 2 years previous | -1.6% | -1.6% | 0.0% | 0.0% | 0.5% | 1.0% |
| Previous Year | -1.6% | 0.0% | 0.0% | 0.5% | 1.0% | 1.5% |
| 6 Year Average | 2.0% | 1.5% | 0.5% | 0.0% | -0.3% | 0.2% |

Since historically the levy increases have been in the 4% range, local governments will see increasing requirements to adjust to lower revenue increases. County government, city government, schools, libraries and the city bus district will feel this impact for a number of years.

I hope that as the levy changes result in reduced property tax levies, market values will increase reducing the amount of lost property tax revenue from the tax caps.

Historical Tippecanoe County Annual Levy Increases

| | | | |
|------|------|------|------|
| 2003 | 4.8% | 2008 | 3.7% |
| 2004 | 4.7% | 2009 | 4.0% |
| 2005 | 4.4% | 2010 | 4.0% |
| 2006 | 3.9% | 2011 | 2.9% |
| 2007 | 4.0% | | |

When you see the historical levy increase levels, small increases or decreases would make a tremendous difference in the services provided the taxpayers. When new construction keeps total assessment increasing at a good pace, a 4% levy increase is not significant. When total assessment is relatively flat due to the lack of construction and dropping market values of property, property taxes could increase for taxpayers and the taxing districts seeing decreases in funding. There is great concern by all local governmental units that continued services would be very difficult in the future.